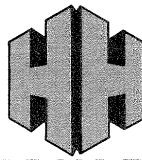


Management Letter

MARION T. ACADEMY CHARTER SCHOOL
(A Component Unit of the State of Delaware)
Wilmington, Delaware

Year Ended June 30, 2006



HAGGERTY & HAGGERTY, P.A.

**CERTIFIED PUBLIC ACCOUNTANTS
& MANAGEMENT CONSULTANTS**

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Management Letter

To the School Board and President
Marion T. Academy Charter School
Wilmington, Delaware

In planning and performing our audit of the financial statements of Marion T. Academy Charter School (a component unit of the State of Delaware) for the year ended June 30, 2006, we considered the School's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control.

During our audit we became aware of matters that are opportunities for strengthening internal control and increasing efficiency. The memorandum that accompanies this letter summarizes our findings and recommendations regarding such matters. A separate report dated November 20, 2006, contains our report on reportable conditions in the School's internal control. This letter does not affect our report on the School's basic financial statements, dated November 20, 2006.

The matters noted are only those that came to our attention and, had our procedures for internal control related matters been more extensive, other matters might have been noted. Also, the functioning of the internal control was assessed at a point in time, and no assurances can be drawn that the internal control is functioning or will continue to function beyond the point in time at which it was assessed. No opinion is being expressed regarding internal control taken as a whole.

The status of the findings will be reviewed in the subsequent audit engagement. We have discussed these matters with the School's personnel and we would be pleased to discuss them in further detail, to perform any additional study, or to assist the School in the implementation of the recommendations.

This report is intended solely for the information and use of management, School Board, Department of Education, Office of the Governor, Office of the Controller General, Office of the Attorney General, Office of the Budget, Office of Auditor of Accounts, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, under 29 Del. C., Section 10002(d), this report is a public record and its distribution is not limited.

Certified Public Accountants

November 20, 2006
Wilmington, Delaware

LIST OF FINDINGS FOLLOWS:

<u>Current Findings</u>	<u>Description</u>
1	Personnel Files
2	Records Maintenance
3	Cash Management Function
4	Cash Disbursement Function
5	Petty Cash Fund

Status of Prior Years' Findings

June 30, 2005:

1	Cash Management
2	Payroll Function

June 30, 2004:

1	Grant Expenditure Allocations
3	Personnel Manual

June 30, 2003:

2	General Journal Entries
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CURRENT FINDINGS

Finding Number 1 - Personnel Files

Our review of the human resource function revealed that certain personnel files did not contain documentation for salary, Employee Withholding Allowances Certificates, INS (Immigration and Naturalization Service) Form I-9, Teacher Certificates, or background checks. A random sample of 39 was tested from a total of 73 employees. Of the 39 files:

- 3 files had missing or incomplete I-9 forms
- 2 files had missing or incomplete W-4 forms
- 2 files had missing salary information
- 5 files had missing teacher certification information
- 2 files had missing background check information
- 3 files had personnel information that was for a different employee
- 1 file had employee information with two different first names with no explanation as to why two names are used and whether it was the same employee
- 1 file that had been tested in a prior year as complete, is now missing all information; that employee's employment with the school has been terminated.

The Immigration Reform and Control Act of 1986 requires all employers to verify "employment eligibility" of any individual hired after November 6, 1986 by completing and retaining INS Form I-9.

The Delaware Code, Title 14, Section 507(c) states that "a charter school may, where it deems it beneficial to the success of its educational program, hire non-certified teachers so long as such teachers comprise no more than 35% of the teachers at the school".

Delaware Department of Education (DOE) requires that all final candidates for public school related employment are required to have a criminal background check (DOE Administrative Code Section 745).

The Internal Revenue Code requires the information on the Employee's Withholding Allowance Certificate under Sections 3402(f)(2)(A) and 6109 and their regulations.

Also, personnel information must be protected to insure the employee's right to privacy.

Recommendation

We recommend the School institute monitoring procedures to ensure personnel files contain all the documentation required for compliance with federal, state and local laws. We also recommend that personnel files be reviewed to ensure that the information contained in each file is for the employee.

CURRENT FINDINGS (continued)

Finding Number 2 - Records Maintenance

We were unable to locate certain financial information. The records were either misfiled or unavailable at the School's premises. We also noted that two duplicate payments were made. The causes appear to be the following:

- Lack of a clearly defined records management system;
- Failure of those who removed records from the files to indicate who took the records;
- Failure to return the records to the files or misfiling them when returned.

Recommendation

We recommend that management become familiar with the following guidance prior to developing a records management system:

- The records management handbook "General Records Retention Schedule" from the State Bureau of Archives and Records Management.
- Department of Education, Administrative Code, Section 716, "Maintenance of Local School District Personnel Records".
- Office of the Budget, Budget and Accounting Policy, Section XII Records Retention and Filing.

Finding Number 3 - Cash Management Function

The School has State deposits that are not earning the maximum potential because funds are transferred between accounts to cover payroll expenditures for a four month period.

Recommendation

We recommend funds transferred to meet payroll requirements be transferred on a monthly basis.

CURRENT FINDINGS (continued)

Finding Number 4 - Cash Disbursement Function

Our review of vendor payments revealed that 19 of the 84 DFMS expenditures tested were not paid within 30 days of the date of the invoice; and 14 of the 84 expenditures were miscoded. Also, our procedures revealed that the PV (Payment Voucher) documents were processed without the proper signature authorization or before authorization by school officials.

The State of Delaware *Budget and Accounting Manual* Chapter VII 10(a) states, "The State shall make every effort to issue payments to vendors within 30 days of the presentation of a valid invoice on which a state agency is liable to make payment; or receipt of goods or services; if received after the invoice or bill".

Recommendation

We recommend that the School comply with the State of Delaware *Budget and Accounting Manual* by paying invoices within 30 days. Vendor invoices should be dated when received and when entered into DFMS for payment. We also recommend that prior to processing any invoices a thorough review be performed and proper signatures authorizing payment be obtained.

Finding Number 5 - Petty Cash Fund

Our audit procedures revealed that an operating financial transaction of the School was processed through the local bank account established for petty cash purposes. The transactions were funds collected for uniforms totaling \$4,926.01. The \$4,926.01 was deposited in the local bank account; however, the School paid the vendor for the uniforms from the local funds. The \$4,926.01 should have been deposited and credited to the local funds

Recommendation

We recommend that the School reimburse the local funds \$4,926.01 from the local bank account. Also, we recommend that the School discontinue the use of the local bank account for operating activities.

STATUS OF PRIOR YEARS' FINDINGS

June 30, 2005:

Finding Number 1 - Cash Management

Our audit procedures revealed that a check for \$22,000, resulting from the School's debt refinancing, was held and not deposited in the School's bank account for 75 days. The State of Delaware's *Budget and Accounting Policy Manual*, Section VIII-B states that: "All monies which belong to the State are to be deposited on the day of receipt... Those agencies which do receive less than \$100 in daily receipts, shall make a deposit when the accumulated undeposited receipts exceed \$100 or on a weekly basis, whichever occurs first. When monies are received after the close of normal banking hours, they shall be deposited on the next business day."

Recommendation

We recommended that all cash receipts be deposited in accordance with The State of Delaware's *Budget and Accounting Policy Manual*.

Status of Finding

The finding is resolved.

Finding Number 2 - Payroll Function

Our audit procedures revealed that no written record of the Board of Directors' actions taken regarding the Head of School's salary is included in the personnel file.

Recommendation

We recommended that the Board send a memo to the payroll clerk detailing the salary amount, the effective date of the salary for the Head of School, and the approval date by the Board.

Status of Finding

The finding is resolved.

STATUS OF PRIOR YEARS' FINDINGS (continued)

June 30, 2004:

Finding Number 1 - Grant Expenditure Allocations

Our audit procedures revealed that expenditures are allocated to grants without supporting documentation to ascertain the propriety of the allocations being made.

Recommendation

We recommended that all grant expenditures be reviewed along with their supporting documentation, such as time and effort reports, to determine whether it is an allowable federal grant expenditure.

Status of Finding

The finding remains unresolved.

Finding Number 3 - Personnel Manual

The personnel manual requires updating to remove all references to the management company, including the following:

1. The current manual dated 12/10/03, effective January 2004 states that *"No one other than President of Mosaica Education, Inc. may alter or modify any of the policies in this Employee Manual"*.
2. The pay periods are not in agreement with the State of Delaware's pay periods.
3. Direct deposit is mandatory by the State of Delaware and not just "where available".
4. Benefit information and eligibility needs to agree with the State of Delaware's benefits or state the School's differences.

Recommendation

We recommended that management, along with the Board, review the manual and update, where applicable.

Status of Finding

The finding is resolved.

To the School Board and President
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STATUS OF PRIOR YEARS' FINDINGS (continued)

June 30, 2003:

Finding Number 2 - General Journal Entries

Our review of EX (Expenditure Correction) documents revealed that EX documents and source documentation do not agree.

Recommendation

We recommended that all documents be reviewed for accuracy and completeness prior to approval.

Status of Finding

The finding remains unresolved.